

OPEN MEETING ITEM



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COMMISSIONERS
DOUG LITTLE - Chairman
BOB STUMP
BOB BURNS
TOM FORESE
ANDY TOBIN

ORIGINAL



ARIZONA CORPORATION COMMISSION

Executive Director

RECEIVED
AZ CORP COMMISSION
DOCKET CONTROL

2016 FEB 10 PM 9 30

DATE: FEBRUARY 10, 2016

DOCKET NO.: E-01773A-15-0389

TO ALL PARTIES:

Enclosed please find the recommendation of Administrative Law Judge Belinda Martin. The recommendation has been filed in the form of an Order on:

ARIZONA ELECTRIC POWER COOPERATIVE, INC.
(FINANCING)

Pursuant to A.A.C. R14-3-110(B), you may file exceptions to the recommendation of the Administrative Law Judge by filing an original and thirteen (13) copies of the exceptions with the Commission's Docket Control at the address listed below by **4:00** p.m. on or before:

FEBRUARY 19, 2016

The enclosed is NOT an order of the Commission, but a recommendation of the Administrative Law Judge to the Commissioners. Consideration of this matter has tentatively been scheduled for the Commission's Open Meeting to be held on:

MARCH 2, 2016 AND MARCH 3, 2016

For more information, you may contact Docket Control at (602) 542-3477 or the Hearing Division at (602) 542-4250. For information about the Open Meeting, contact the Executive Director's Office at (602) 542-3931.

Arizona Corporation Commission

DOCKETED

FEB 10 2016

DOCKETED BY	<i>KL</i>
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Jodi A. Jerich
JODI A. JERICH
EXECUTIVE DIRECTOR

1200 WEST WASHINGTON STREET; PHOENIX, ARIZONA 85007-2927 / 400 WEST CONGRESS STREET; TUCSON, ARIZONA 85701-1347

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This document is available in alternative formats by contacting Shaylin Bernal, ADA Coordinator, voice phone number 602-542-3931, E-mail SABernal@azcc.gov.

1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 **COMMISSIONERS**

3 DOUG LITTLE - Chairman
4 BOB STUMP
5 BOB BURNS
6 TOM FORESE
7 ANDY TOBIN

8 IN THE MATTER OF ARIZONA ELECTRIC
9 POWER COOPERATIVE, INC. FOR
10 AUTHORIZATION TO INCUR DEBT AND
11 SECURE LIENS IN ITS PROPERTY TO FINANCE
12 ITS CONSTRUCTION WORK PLAN.

DOCKET NO. E-01773A-15-0389

DECISION NO. _____

ORDER

13 Open Meeting
14 March 2 and 3, 2016
15 Phoenix, Arizona

16 **BY THE COMMISSION:**

17 * * * * *

18 Having considered the entire record herein and being fully advised in the premises, the Arizona
19 Corporation Commission ("Commission") finds, concludes, and orders that:

20 **FINDINGS OF FACT**

21 **Procedural History**

22 1. On November 13, 2015, Arizona Electric Power Cooperative, Inc. ("AEPCO" or
23 "Cooperative") filed an application with the Commission requesting authorization to incur debt and
24 secure liens in its property in order to finance its Construction Work Plan ("CWP") for 2015-2017.

25 2. On December 2, 2015, the Cooperative filed an affidavit of publication verifying that it
26 published notice of its financing application in *The Arizona Daily Star* and *The Kingman Daily Miner*
27 on November 23, 2015, newspapers of general circulation in Pima County and Mohave County,
28 respectively. No customer comments were received in response to the notice.

3. On January 25, 2016, the Commission's Utilities Division ("Staff") filed its Staff Report
in this matter.

4. On February 3, 2016, AEPCO filed Comments to the Staff Report, acknowledging
Staff's recommendations, but noting a minor typographical error on page 2 of the Staff Report

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1 regarding the Cooperative's total line of credit authorization.

2 **Company Background**

3 5. AEPCO is an Arizona public service corporation and non-profit, electric generation
4 cooperative located in Benson, Arizona. AEPCO provides power and wholesale energy primarily to
5 six Class A member distribution cooperatives—Anza Electric Cooperative, Inc., Duncan Valley
6 Electric Cooperative, Inc., Graham County Electric Cooperative, Inc., Sulphur Springs Valley Electric
7 Cooperative, Inc., Mohave Electric Cooperative, Inc., and Trico Electric Cooperative, Inc.—under the
8 terms of all-requirements or partial-requirements capacity and energy requirements. The City of Mesa
9 and the Salt River Project Agricultural Improvement District are Class B members and Valley Electric
10 Association is a Class D member.

11 6. AEPCO's current rates were approved in Decision No. 74173 (October 25, 2013).

12 7. In Decision No. 75350 (December 17, 2015), the Commission approved AEPCO's
13 Environmental Compliance Adjustment Rider and Plan of Administration.¹

14 8. Staff reported no compliance issues with AEPCO.

15 9. The Cooperative presently has two active financing approvals from the Commission.
16 Decision No. 73728 (February 20, 2013) authorized a permanent loan of \$32,042,700 and interim
17 financing not to exceed \$38,907,400. As of October 31, 2015, AEPCO had drawn \$13,000,000 under
18 the permanent loan from the Rural Utilities Services/Federal Financing Bank ("RUS/FFB"). AEPCO
19 anticipates it will use the entire authorized amount of the permanent loan to finance the projects
20 identified in its 2012-2014 CWP. In Decision No. 74447 (April 18, 2014), the Commission approved
21 two unsecured, committed revolving lines of credit not to exceed the combined amount of
22 \$100,000,000. As of October 31, 2015, AEPCO had drawn \$5,000,000.

23 **The Financing Request**

24 10. The Cooperative requests authorization to obtain financing in an amount not to exceed
25 \$31,167,500 from the RUS/FFB guaranteed loan program to finance its 2015-2017 CWP.

26 11. AEPCO expects an RUS/FFB loan with a final maturity date of December 2034. The
27

28 ¹ The Environmental Compliance Adjustment Rider and Plan of Administration is a surcharge mechanism implemented to provide recovery of potential costs associated with future environmental compliance obligations.

1 current rate for a 20-year RUS/FFB loan is 2.39 percent.

2 12. The applicable interest rate on the RUS/FFB loan will be fixed at the time each advance
3 is made.

4 13. AEPCO also requests Commission authorization, consistent with that granted in
5 Decision No. 71111 (June 5, 2009) and Decision No. 73728, to change the specific facilities to be
6 financed in the CWP without the necessity of filing an amended application as long as the total amount
7 being financed does not exceed \$31,167,500.

8 **Staff's Review and Recommendations**

9 14. The Commission's Utilities Division Engineering Staff reviewed AEPCO's CWP for
10 2015-2017. The projects included in the 2015-2017 CWP are for nitric oxide and nitrogen oxide
11 reduction and compliance upgrades, and for mercury control.

12 15. Staff concludes that the projects included in the proposed CWP are appropriate and that
13 the associated costs appear to be reasonable. However, Staff makes no "used and useful" determination
14 in this proceeding. Staff states that its conclusions in this Docket do not imply a specific treatment for
15 rate base or for rate making purposes in any future rate filing.

16 16. Staff's financial analysis shows that as of December 31, 2014, AEPCO's capital
17 structure consisted of 5.69 percent short term debt, 54.51 percent long-term debt and 39.80 percent
18 equity.

19 17. A pro forma capital structure, assuming issuance of new debt in the amount of
20 \$31,167,500, and amortizing over 20 years at 2.39 percent per annum, would be composed of 5.52
21 percent short-term debt, 58.50 percent long-term debt and 35.98 percent equity.²

22 18. For the year ended December 31, 2014, AEPCO had a Times Interest Earned Ratio
23 ("TIER") of 1.49 and Debt Service Coverage ("DSC") of 1.32.³ Assuming the issuance of long-term

24 ² AEPCO's equity was 5.4 percent of total capitalization as of December 31, 2005. (Decision No. 69238 (January 19, 2007)
25 at 3-4.) Its equity had improved to 23.9 percent of total capitalization as of December 31, 2007. Decision No. 68071
26 (August 17, 2005) ordered AEPCO to file an equity improvement plan and to not make any patronage refunds when its
27 equity remains below 20 percent of total capitalization, and to limit patronage refunds to 25 percent of net earnings if its
28 equity is between 20 and 30 percent. On January 15, 2006, AEPCO filed an equity improvement analysis which forecasted
equity to be 30.0 percent of total capitalization by the year 2015. (Decision No. 71111 at 3.)

³ TIER represents the number of times earnings cover interest expense on short-term and long-term debt. A TIER greater
than 1.0 means that operating income is greater than interest expense. A TIER less than 1.0 is not sustainable in the long
term but does not mean that debt obligations cannot be met in the short term. DSC represents the number of times internally

1 debt amortizing over 20 years in the amount of \$31,167,500, at an interest rate of 2.39, the pro forma
2 analysis indicates AEPCO would have a TIER of 1.37 and DSC of 1.20 based on December 31, 2014,
3 financial results.

4 19. RUS requires AEPCO to maintain a minimum TIER of 1.05 and a DSC of at least 1.00
5 in two out of three years.

6 20. Arizona Revised Statutes ("A.R.S.") §40-285 requires public service corporations to
7 obtain Commission authorization to encumber certain utility assets. The statute protects captive
8 customers from a utility's act to dispose of any of its assets that are necessary for the provision of
9 service, and thus, pre-empts any service impairment due to disposal of assets essential for providing
10 service. Pledging assets as security, however, typically provides benefits to the borrower in the way
11 of increased access to capital funds or a preferable interest rate.

12 21. Staff concludes that issuance of debt financing for the purposes stated in the application
13 is within AEPCO's corporate powers, is compatible with the public interest, is consistent with sound
14 financial practices and will not impair AEPCO's ability to provide service.

15 22. Staff recommends:

16 (a) Granting the Cooperative authorization to incur long-term financing in an
17 amount not to exceed \$31,167,500 from RUS/FFB;

18 (b) That such finance authority shall be expressly contingent upon AEPCO's use of
19 the proceeds for the purposes stated in its application and approved herein;

20 (c) That any unused authorizations to issue debt granted in this proceeding terminate
21 within five years of a decision in this docket;

22 (d) Authorizing the Cooperative's request to change the specific facilities to be
23 financed in the CWP without the necessity of filing an amended application subject to the conditions:
24 1) the total amount financed remains below the financing amount authorized; 2) that the Cooperative
25 file in this docket a description of any proposed modifications to the CWP which cost more than
26 \$500,000, and that such modifications substantially conform to the purposes of the 2015-2017 CWP;

27 generated cash will cover required principal and interest payments on short-term and long-term debt. A DSC greater than
28 1.0 indicates that operating cash flow is sufficient to cover debt obligations. A DSC less than 1.0 means that debt service
obligations cannot be met by cash generated from operations and that another source of funds is needed to avoid default.

1 3) that Staff has not filed an objection to the proposed modifications within 60 days of the date AEPCO
2 files the proposed changes; and 4) that the proposed modifications be deemed approved for financing
3 purposes only;

4 (e) Authorizing AEPCO to pledge its assets in the State of Arizona pursuant to
5 A.R.S. §40-285 in connection with any indebtedness authorized in this proceeding;

6 (f) Authorizing AEPCO to engage in any transaction and to execute any documents
7 necessary to effectuate the authorizations herein granted; and

8 (g) Directing the Cooperative to file with Docket Control, as a compliance item in
9 this matter, a letter summarizing the transaction and to provide to the Commission's Utilities Division
10 Director a copy of the loan documents, within 30 days of the execution of any financing transaction
11 authorized.

12 **Conclusion**

13 23. It is necessary for utilities to continue to invest in their systems in order to maintain
14 adequate levels of service. AEPCO requires additional finance authority in order to continue to invest
15 in its generating assets. We find that Staff's conclusions and recommendations are reasonable and adopt
16 them.

17 24. We agree that it is in the public interest to allow AEPCO to modify its 2015-2017 CWP
18 without necessarily having to file an amended financing request. We have previously granted AEPCO
19 this flexibility and the process has worked well. However, consistent with our previous decisions, we
20 find that such authority be contingent on the proposed modifications to the CWP substantially
21 conforming to the purposes of the 2015-2017 CWP, as well as the conditions recommended by Staff
22 as described above.

23 **CONCLUSIONS OF LAW**

24 1. AEPCO is a public service corporation within the meaning of Article XV of the Arizona
25 Constitution and A.R.S. §§ 40-285, 40-301, 40-302, and 40-303.

26 2. The Commission has jurisdiction over AEPCO and of the subject matter of the
27 application.

28 3. Notice of the application was given in accordance with the law.

4. The financing approved herein is for lawful purposes within AEPCO's corporate powers, is compatible with the public interest, with sound financial practices, and with the proper performance by AEPCO of service as a public service corporation, and will not impair AEPCO's ability to perform the service.

5. The financing approved herein is for the purposes stated in the application, is reasonably necessary for those purposes and such purposes may not be reasonably chargeable to operating expenses or to income.

ORDER

IT IS THEREFORE ORDERED that Arizona Electric Power Cooperative, Inc. is authorized to borrow an amount not to exceed \$31,167,500 from RUS/FFB.

IT IS FURTHER ORDERED that any authorization to incur debt granted in this proceeding shall terminate five years from the effective date of this Decision.

IT IS FURTHER ORDERED that such finance authority shall be expressly contingent upon Arizona Electric Power Cooperative, Inc.'s use of the proceeds for the purposes stated in its application and approved herein.

IT IS FURTHER ORDERED that Arizona Electric Power Cooperative, Inc. may change the specific facilities to be financed in the CWP without the necessity of filing an amended financing application conditioned upon the following: 1) the total amount financed remains below the financing amount authorized; 2) that Arizona Electric Power Cooperative, Inc. file in this docket a description of any proposed modifications to the Construction Work Plan which cost more than \$500,000, and that such modifications substantially conform to the purposes of the 2015-2017 Construction Work Plan; 3) that Staff has not filed an objection to the proposed modifications within 60 days of the date Arizona Electric Power Cooperative, Inc. files the proposed changes; and 4) that the proposed modifications be deemed approved for financing purposes only.

IT IS FURTHER ORDERED that Arizona Electric Power Cooperative, Inc. is authorized to engage in any transaction and execute any documents necessary to effectuate the authorizations granted.

IT IS FURTHER ORDERED that Arizona Electric Power Cooperative, Inc. shall file with

Docket Control, as a compliance item in this matter, a letter summarizing the transaction and to provide to the Commission's Utilities Division Director a copy of the loan documents, within 30 days of the execution of any financing transaction authorized.

IT IS FURTHER ORDERED that Arizona Electric Power Cooperative, Inc. is authorized to pledge its assets in the State of Arizona pursuant to A.R.S. § 40-285 in connection with any indebtedness authorized in this Decision.

IT IS FURTHER ORDERED that approval of the financing set forth hereinabove does not constitute or imply approval or disapproval by the Commission of any particular expenditure of the proceeds derived thereby for purposes of establishing just and reasonable rates.

IT IS FURTHER ORDERED that this Decision shall become effective immediately.

BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

CHAIRMAN

COMMISSIONER

COMMISSIONER

COMMISSIONER

COMMISSIONER

IN WITNESS WHEREOF, I, JODI JERICH, Executive Director of the Arizona Corporation Commission, have hereunto set my hand and caused the official seal of the Commission to be affixed at the Capitol, in the City of Phoenix, this _____ day of _____ 2016.

JODI JERICH
EXECUTIVE DIRECTOR

DISSENT _____

DISSENT _____
BM:ru

SERVICE LIST FOR:

E-01773A-15-0389

DOCKET NO.:

ARIZONA ELECTRIC POWER
COOPERATIVE, INC.

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